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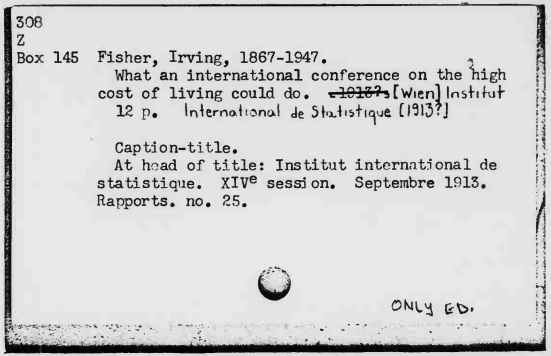
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WHAT AN INTERNATIONAL CONFERENCE ON THE HIGH COST OF LIVING COULD DO.

BY

IRVING FISHER,
YALE UNIVERSITY, NEW HAVEN, CONN., U. S. A.

It had been my hope that before this Institute should meet, the President of the United States would already have been authorized by Congress to invite the various countries of the world to join the United States in an International Conference on the High Cost of Living. As yet this hope has not been realized. But the movement for such a conference is gaining strength and seems likely sooner or later to succeed.

This movement was originally suggested independently by several persons in widely different places, before it took definite form in the United States. Among these should be mentioned Professor Stephen Bauer of Basle, Switzerland, Dr. J. P. Norton of New Haven, Connecticut, and Byron W. Holt of New York City. In May 1911 I brought the matter to the attention of President Taft who made it the subject of a special message to Congress on February 2nd, 1912. Bills embodying his recommendations were introduced into both Houses that spring by Senator Crawford and Congressman Sulzer. The bills authorized the expenditure of $ 20,000 by the President of the United States for an International Conference on the High Cost of Living. The Senate Bill passed that body unanimously in April, 1912. The House bill was on the calendar of the House of Representatives for the session which closed March 4th, 1913. But, owing to the pressure of more urgent legislation, it failed to come to a vote in that body. The special session of Congress called by President Wilson on April 1st is, thus far, devoting itself exclusively to tariff revision. But President Wilson is known to be vitally interested in the problem of the high cost of living, and it is expected that the project of an international

conference will be brought up by him, and probably before the special session adjourns.

In the meantime there are indications that some other country may take the initiative. Speeches on the subject of the need of an International Conference on the High Cost of Living have been made recently in the House of Commons by Mr. Sydney Buxton, President of the British Board of Trade, and by Hon. W. L. Mackenzie King, Canadian Minister of Labour in the Canadian House of Commons.

Over 400 prominent men have exerted their influence in favor of this movement.[1])

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[1]) Among them are:
President Woodrow Wilson, Washington, D. C.
Hon. William H. Taft, Ex-President.
Hon. Theodore Roosevelt, Ex-President.
Hon. Champ Clark, Speaker of the House of Representatives, Washington, D. C.
Senator Coe I. Crawford, United States Senate.
Hon. James M. Curley, House of Representatives, Washington, D. C.
Hon. William Sulzer, Governor of New York, Albany, N. Y.
Hon. Raymond Poincaré, President of France.
Dr. Robert Meyer, ancient Finance Minister, Vienna.
Signor Nitti, Minister of Agriculture, Rome, Italy.
Arthur Fontaine, Ministère du Travail de la Prévoyance Sociale, France.
Signor Luigi Luzzatti, Former Minister of State, Rome, Italy.
His Excellency Bernhard Dernburg, formerly Colonial Secretary of Germany.
Baron Y. Sakatani, Tokyo, Japan, formerly Minister of Finance.
Hon. J. Teleszky, Finance Minister, Budapest, Hungary.
Sir Ernest Aves, Board of Trade, England.
Hon. W. L. Mackenzie King, Minister of Labour, Canada.
Lord Thomas Brassey of London.
Lord Courtney of Penwith, London.
Prof. Adolphe Landry of the University of Paris and Deputy of France.
Prof. Luigi Bodio, Senator, International Institute of Statistics, Rome, Italy.
Jacques Bertillon, Director of Municipal Statistics of the City of Paris.
Mr. R. H. Coats, Department of Labour, Ottawa, Canada.
Mr. G. H. Knibbs, Commonwealth Statistician of Australia, Melbourne.
Hon. Lucien March, Chef de la Statistique Générale de la France, Paris.
G. Findlay Shirras, Finance Dep't, Government of India, Calcutta.
Gov. Statistician Weedon, Brisbane, Queensland, Australia.
Prof. Harald Westergaard, University of Copenhagen, Denmark.
Prof. Knut Wicksell, Lund, Sweden.
Rt. Hon. Charles Booth of London.
Hon. Ernst Delbrück, President Imperial Statistical Office, Berlin.
F. W. Hirst, Editor, The Economist, London, England.

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The plan has been favorably commented upon by numerous magazines, journals and newspapers.

Over thirty organizations have endorsed the plan.[2])

Those actively interested in this plan differ somewhat in their ideas as to the work to be done by the proposed conference. My own idea is that the only real work which could be accomplished by the Conference at its first meeting would be to decide on what problems should be investigated and to appoint a number of committees for that purpose to report to the conference at a later time, perhaps in a year. The membership of these committees would probably consist, for the most part, of government statisticians, and a large amount of the investigations could be done through the government agencies, over which they preside. Governments lacking such official agencies, and desiring to contribute their data and experience, would need to make special provision and appropriations for such studies.

George Paish, Editor, The Statist, London, England.
Prof. Vilfredo Pareto, Celigny, Geneva, Switzerland.
John Hays Hammond, Mining Engineer, New York City.
Arthur T. Hadley, President, Yale University, New Haven, Ct.
Prof. Paul Leroy-Beaulieu, Paris, France.
Prof. E. Philippovich, University of Vienna.
Prof. Alfred Marshall, University of Cambridge, Cambridge, England.
Prof. Gustav von Schmoller, Berlin, Germany.
Charles Legrand, President of Chamber of Commerce, Paris.
C. Morawitz, President of the Anglo-Austrian Bank, Vienna.
Rudolph Sieghart, Governor Austrian Land Mortgage Bank, Vienna, Austria.

[2]) Among them are:
The Verein für Sozialpolitik in Berlin, Germany.
Reale Instituto di Incoraggiamento.
International Congress of Chambers of Commerce.
Commonwealth of Massachusetts.
House of Representatives of Colorado.
The Manufacturers Association of New York.
American National Educational Association.
The Bank of California, San Francisco.
Central Statistical Office, Budapest, Hungary.
The New York Chamber of Commerce.
The Boston Chamber of Commerce.
The Philadelphia Chamber of Commerce.
The Massachusetts State Board of Trade.
The Rhode Island Business Men's Association.

Before appointing such committees, however, and before deciding on what work they were to undertake, the conference should have presented to it the views of its members, including, in particular, a summary of the results of all important investigations as yet made in the different countries of the world. This would give the broad base necessary for further scientific study. The presentation of the present and tentative views of the members of the conference would undoubtedly reveal a great deal of disagreement. The next business of the conference would be to formulate the issues thus presented. These will constitute the unsolved problems to be studied through committees or otherwise as might be deemed wise.

These unsolved problems could probably be classified under the following heads.

(1) What have been the facts during the last two decades or more as to the cost of living?

(2) What have been the causes?

(3) What have been the evils?

(4) What is the outlook for the future?

(5) What are the remedies?

Under all five heads any reports to be made should, of course, summarize what has already been done and contain a bibliography.[3])

As to the method of presenting comparative statistics of prices we need to discuss the various "index numbers" which have been and are being computed, showing the course of prices from year to

[3]) The United States Congressional Library has published such bibliographies. Among the chief contributions to the subject thus far may be mentioned:

Great Britain. Board of Trade. Cost of Living of the working classes in German, Belgian, French, English and American towns.

Canadian Department of Labour, Wholesale Prices in Canada. Reports by R. H. Coats.

India. Statistical Department. Variations in India price levels from 1861 to 1911, expressed in index numbers.

New Zealand. Report of Commission on cost of living.

Australia. Bureau of census and statistics. Inquiry into the cost of living in Australia, 1910—1911. By G. H. Knibbs.

Prices, price indexes, and cost of living in Australia. By G. H. Knibbs.

Massachusetts Bureau of statistics. Living Conditions of the wage-earning population in certain cities of Massachusetts with some comparisons between the United Kingdom and the United States, 1911.

Institut international de statistique. Index numbers. (In its Bulletin, t. XIX, 3. Livraison. La Haye, 1912, p. 124—244.)

year.[4]) A list of such numbers include those of the Canadian Dep't of Labour, the Institut international de Statistique, Sauerbeck, the London Economist, the British Board of Trade, R. H. Hooker in his "The course of prices at home and abroad 1890—1910", Journal of the Royal Statistical Society, Jevons, the Statistical Department of the Indian Government, Soetbeer, Bradstreet, Gibson, the United States Department of Labor.

To make the information contained in these various reports and index numbers available for use some revision of the statistics of different countries is needed to secure uniformity and comparability. Professor Wesley Clair Mitchell has reworked some of the statistics of the United States, Germany and England so that proper international comparisons may be made. G. H. Knibbs, statistician of Australia has made some comparisons of the price levels in Great Britain, Belgium, Germany, Italy, France, Canada, United States, New Zealand and Australia, which show the value of such comparisons. Dr. Neill, late United States Labor Commissioner, has long sought to secure uniformity in method among different countries.

There are some who have made special contributions to the subject of Index Numbers among those engaged in gathering official statistics. Such, for instance, are A. W. Flux of the British Board of Trade and G. H. Knibbs, Commonwealth Statistician of Australia.

We need international comparisons, not only for price levels to day as compared with those of 18 years ago, but also direct comparisons of the various price levels to day in different countries; that is, we need to know not only whether the cost of living has risen faster in Austria for instance than in other countries but also whether the cost of living is today higher in Austria than in other countries. Even such statistics as those of the British Board of Trade along this line are not very satisfactory. We really do not know the relative cost of living in widely different countries, such as India and the United States, or for that matter even in countries closely connected by trade, such as the countries of Europe.

Arthur Shadwell some years ago prepared from personal observation some preliminary figures of this sort for England, Ger-

[4]) Complete reference to these index numbers and description of them will be found in "Additional References on the Cost of Living and Prices" (p. 103—108) Library of Congress, Washington, D. C.

many, and the United States in his book entitled Industrial Efficiency[5]), while the British Board of Trade published reports on this subject for England, Germany, France, Belgium and the United States.

A knowledge of index numbers of prices implies, of course, a knowledge of the purchasing power of the dollar or other monetary unit. Thus, if prices in Austria have risen in the ratio of 2 to 3, the purchasing power of the Krone has fallen in the ratio of 3 to 2.

But the cost of living problem is not only a problem of the purchasing power of monetary units. It has to do also with the problem of how many such units we have in our money incomes. In short, we need not only statistics of prices but also statistics of wages and (if possible) salaries and other incomes. If money incomes were to keep exact pace with the money cost of living, there would be no real hardship in a rise in the cost of living.

Turning now from the problem of the facts to the problem of the causes, we find wider divergencies of opinion. Some of these are due to the lack of a universally accepted doctrine of the price level and partly to the confusion between the question of the price level and that of individual prices. To understand all the reasons for the behavior of a particular price, or group of prices, as, for instance, the price of meat, is much more difficult than to understand the reasons for the general price level. The price of a particular commodity is subject, not only to general but also to particular influences.

Theoretically, there may be wide discrepancies between changes in the general price level embracing all articles both wholesale and retail, and changes in the cost of living in the sense of retail prices of food, clothing and shelter. Therefore, investigations should try to find out whether the increase in the cost of living is identical with the general increase in the price level or confined to a particular set of prices as, for instance, of foods or of retail prices as distinct from wholesale. Here enters the question of the middleman. The middleman acts as a wedge driven between retail and wholesale prices. It is quite conceivable that wholesale prices might fall, while retail prices rose, in which case the rise in the cost of living (retail) could be properly ascribable to the middleman. The facts so far as available, seem to indicate, however, that the rise in retail prices

[5]) Longmans, Green & Co., 1906.

has been very similar to the general rise of all prices, including wholesale.

It would seem as though some great, worldwide force were raising the tides of prices everywhere. If this be true our problem is evidently not one of special prices but one of the general price level, including wholesale and retail prices, the prices of foods, and of raw materials and all other classes or descriptions of prices.

This problem of general prices is the subject matter of my book, the Purchasing Power of Money.[6]) There I have tried to show that the general level of prices (P) in any country as shown by an index number is the quotient of its total expenditure, both by money and by checks, divided by its total volume of trade (T). Since the expenditure by money is the product of the amount of money (M) multiplied by its velocity of circulation (V) and since, likewise, the expenditure by checks is the product of the volume of deposits subject to check (M^1) by their velocity of circulation (V^1) it follows that our "equation of exchange" may be written

$$P = \frac{M\,V + M^1\,V^1}{T}$$

I have given reasons in my Purchasing Power of Money for believing that in this equation the price level (P) is in general the result of the other factors and not a cause so that it tends to rise with an increase in any one of the four magnitudes M, V, M^1, V^1 (money, its velocity, deposits, their velocity) and tends to fall with an increase in T (the volume of trade). If my analysis (which is little more than a restatement of Ricardo's) is correct, it follows that in order to understand the causes of the rise in the general price level during the last fifteen years, we need to study the history of the five magnitudes M, V, M^1, V^1, T. These embrace all the proximate influences on the general level of prices, although, of course, behind each one of these five proximate causes lie innumerable antecedent causes, the chief of which also deserve study. In the study of these five proximate influences on the price level the most important question is whether as a whole the numerator of the fraction — the total expenditure by money and checks — has increased or whether the denominator — the volume of trade — has decreased.

[6]) Purchasing Power of Money, Macmillan & Co., New York, 1911, Chap. II. (A translation of this book into German will be published in 1914, Georg Reimer, Berlin.)

If the volume of trade (T) has shrunk then we are suffering from a scarcity of goods. But if the means for buying goods ($M V + M^1 V^1$) have expanded, then we are suffering from monetary and credit inflation. The question, in short, is whether the phenomenon is one of scarce goods or abundant money and money substitutes. If the former, then our problem is fundamentally industrial; if the latter, it is fundamentally monetary.

Before this question (whether "money" or "goods" is at fault) can be satisfactorily answered, we must have statistics on all these factors in the "equation of exchange", namely, the volume of trade, the money in circulation, the bank deposits and the velocities of money and deposits.

For the United States these statistics have been partially worked out. Professor E. W. Kemmerer of Princeton University was the first to attempt such statistics (in his Money and Credit Instruments in Their Relation to General Prices, 1906). In my Purchasing Power of Money I have published completer figures which again, have been supplemented by later writings of mine[7]), and Professor Wesley Clair Mitchell in a forthcoming book[8]), has secured still completer data.

I would add that the recent report of the Commission on the High Cost of Living in New Zealand commenting on these American studies and the lack of corresponding data for New Zealand states that "it is a work that urgently requires to be done" for New Zealand and other countries. This is my own earnest belief and I trust that, if an International Conference on the High Cost of Living ever be called, one of its chief fruits will surely be such data on the fundamentals in the equation of exchange.

The three American studies agree extremely well. My own figures show that the volume of trade in the United States has increased on an average 5·3% per annum since 1896, which is more than the increase in our population ($1^1/_2$% per annum) showing that our average per capita trade has increased and therefore, presumably, our per capita production and consumption had increased also.

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[7]) "The 'Equation of Exchange' for 1910", and for 1911 and 1912, American Economic Review of June 1911, June 1912, June 1913, and "Will the Upward Trend of World Prices Continue?" American Economic Review, Sept. 1912.

[8]) Business Cycles, University of California Press, Berkeley, California, 1913. My thanks are due to Professor Mitchell for allowing me to see his proof sheets.

A comparison of the census figures for 1899 and 1909, however, show only a slight increase (9%) in the production of the leading crops in the last ten years which shows a slight decrease in the per capita production. Mr. J. L. Coulter[9]) of the Census Bureau believes the years 1899 to 1909 to be representative years and that the census figures show a distinct trend toward scarcity of crops. Mr. Nat C. Murray, however, Associate Statistician of the Department of Agriculture, is of the opposite opinion. He accepts the Census figures but maintains that the years 1899 and 1909 are not representative. We have no sure method of settling the question at issue. The only figures available for other years than the years 1899 and 1909 are the estimates of Mr. Murray aided by experts throughout the country. I am inclined to believe these estimates have some real value, especially as their results agree better with the data from other sources than does the opinion of Mr. J. L. Coulter.

But while we have no adequate world data on the volume of trade and the monetary means for conducting it, yet so far as the facts are available they point to the same conclusion as has been reached in the studies made for the United States above referred to, viz: that the monetary means for purchasing these goods have become abundant and not that goods have become scarce.

The Statistics of world crops as reported by the Department of Agriculture of the United States and the International Institute of Agriculture at Rome give, I think, no reason to believe that crops throughout the country are growing scarce.[10]) I have also tried to estimate the trend of the volume of trade from the postoffice and railroad traffic and other data.[11])

I have concluded that the volume of trade is increasing and is likely to increase in the future at a rate of 4 or 5% per annum, but that the flow of purchasing power by money and checks is increasing and is likely to increase enough faster to cause the world price level to rise about 2% per annum.

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[9]) See Quarterly Journal of Economics, Nov. 1912.

[10]) On the basis of these figures I estimate roughly that the average annual rate of increase of fifteen crops has been about $2^1/_2$% per annum.

[11]) These are detailed in my article "Will the Present Upward Trend of World Prices Continue?" American Economic Review, Sept. 1912. These data indicate that the volume of trade is increasing at $4^1/_2$% but that the monetary and fiduciary means of conducting that trade are increasing at 7% per annum.

If these tentative conclusions be confirmed in the future, we shall be justified in saying that we are now suffering, not from impoverishment, but from inflation and that we do not all suffer. The debtor, the stockholder, the independent producer are gaining at the expense of the creditor, the bondholder and the employee. Fundamentally therefore, the evil is one of distribution, not of production. It consists of a subtle transfer of wealth, that is, the shrinkage in the purchasing power of money has transferred billions of real value from savings bank depositors, salaried men, wage earners, bondholders, and others whose incomes are relatively fixed in terms of money to stockholders, employers, and the more adventurous classes.

Incidentally, I may here remark that these adventurous classes have, as such classes always do, been lavish and ostentatious with their suddenly acquired fortunes. Consequently, one of the phenomena we are now witnessing is an increase of estravagance. According to this interpretation extravagance is not a cause of the high cost of living but an effect. Therefore, I disagree with the aphorism that "the high cost of living is the cost of high living".

I wish here to emphasize another point, viz: that it would be misleading to say that the gainers by the rise of prices are greatly benefited, for part, at least, of their gains are lost again from the discontent and violence of those at whose expense they have gained. Strikes, bread and meat riots, etc. destroy wealth. In fact, the rising cost of living is a potent cause of revolutionary movements throughout the world and far-sighted business men, even if they belong to the class who theoretically gain from rising prices, will welcome a cessation in the upward movement not only as a matter of social justice but as a matter of self interest. In short, business men as a whole should seek stability rather than hope to reap any permanent advantage from instability. Stability of the purchasing power of money would serve almost as a general insurance of credit relations.

If an investigation of the problem of the high cost of living results, as I am here hinting, in the discovery that the problem is a monetary one, then undoubtedly a monetary remedy should be applied. Such a remedy I have ventured to propose in a standardized monetary unit.[12]) The system proposed would operate to compensate for the

[12]) See Quarterly Journal of Economics, Feb. 1913, and American Economic Review supplement, March 1913; "A More Stable Gold Standard",

loss in the purchasing power of the dollar through the depreciation of gold, by adding (in effect but not in literal fact) to the weight of a dollar, whatever amount of bullion may be needed each month to restore any loss of purchasing power since the system was adopted. We will all agree that the lighter the gold dollar is, the less its purchasing power and the higher the scale of prices; while, on the other hand, the heavier the gold dollar the greater its purchasing power and the lower the scale of prices. The dollar then may be made lighter or heavier, in such a way that it may be always constant in purchasing power. Changes in the purchasing power of the monetary unit would, of course, be ascertained through the use of a previously adopted index number of prices. If at any time the general level of prices were found to be 1% below par, then 1% more bullion would be added to the dollar. This merely means that certificates entitling the owner to gold will enable him to more or less gold (bullion) from time to time instead of to a fixed amount as at present, and that the owner of gold bullion will receive a dollar, on similar terms. That is, the jeweler will buy gold and the miner sell gold at a variable instead of a fixed price. Instead of a fixed weight of gold in a dollar with a variable purchasing power we shall have a fixed purchasing power and a variable weight.[13]) The plan is really to introduce the multiple standard in which the dollar is not a composite unit of a number of different commodities but the gold equivalent of such a composite unit.[14])

British Economic Journal, Dec. 1912; Report before the International Congress of Chambers of Commerce, Boston 1912; "Observation et Stabilisation des prix" by Lucien March (communication à la société de statistique de Paris, Jan. 15, 1913).

[13]) Under this plan there would be no necessity for recoining any gold coin already in circulation, as such coin would merely serve as a certificate for gold bullion. Gold coins would remain unchanged in weight but would become mere token coins.

[14]) It is impossible so briefly to fully state this proposal, much less to answer the many objections which so short a statement is sure to provoke. Suffice it to say that the great majority of those who have carefully examined the plan have accepted it as feasible and the more carefully they have examined it the more fully they have endorsed it. Among those who have written of the plan favorably are President Arthur T. Hadley of Yale; John Hays Hammond, mining engineer, New York City; John V. Farwell, financier, of Chicago; Henry L. Higginson, of Boston; Sir David Barbour, who was responsible for introducing the gold exchange standard into India; Adolphe Landry, Member of French Chamber of Deputies; Maurice Ansiaux, Professor, Solvay Institute of Brussels; Stephen

Other than monetary remedies should also be considered, especially if it be found that our high cost of living is not a monetary affair. In fact whether the high cost of living proves to be a monetary affair or not, there are probably numerous economies which might well be introduced to help us bear the high cost of living. Among such economies should be mentioned a removal of high tariffs on articles of ordinary consumption; various co-operative devices, such as the co-operative organizations advocated by Sir Horace Plunkett formed among farmers for the selling of their products, so successful in England, Ireland and Scotland; elimination of unnecessary middlemen; reformation of banking systems; and reduction of human disease and disability. All these and many other suggested remedies for the high cost of living which tend toward a greater production or a lessened waste should be investigated.

It may be a long time before any remedies can actually be put into practice, even if an international conference is called. A general desire that a definite remedy should be applied must come before the application of that remedy; and a general desire presupposes more or less agreement as to the significance of the phenomena of the high cost of living. Such an agreement in turn presupposes a general knowledge of the facts and causes and such a general knowledge can only come about through the efforts of leaders of thought. It follows that even if a conference would merely give us a better knowledge of this great world phenomenon and would not accomplish anything further, nevertheless it would have served a very useful purpose in providing more data — the indispensible basis for the solution of the problem in later years.

Bauer, Professor, University of Basle; A. C. Pigou, Professor, King's College, Cambridge, England; J. M. Keynes, Editor of the Economic Journal of London.

I hope before the present year closes to publish a small volume giving a complete statement of the plan for standardizing the dollar.

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